



# IMANET-CMA<sup>Q&As</sup>

Certified Management Accountant (CMA)

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**QUESTION 1**

Total unit costs are

- A. Relevant for cost-volume-profit analysis.
- B. Needed for determining sunk costs.
- C. Irrelevant in marginal analysis.
- D. Independent of the cost system used to generate them.

Correct Answer: C

Marginal (incremental or differential) analysis determines the differences in costs among decision choices. Total unit costs are not relevant in marginal analysis because of the inclusion of costs that may not vary among the possible choices considered. In marginal analysis, only the incremental costs are relevant.

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**QUESTION 2**

According to the growth-share matrix model for business portfolio analysis, a divest strategy

- A. Is necessary for a question mark with potential to be a star.
- B. Is used for strong cash cows.
- C. Is normally used for question marks and dogs that reduce the firm's profitability.
- D. Maximizes short-term net cash inflow.

Correct Answer: C

A divest strategy is normally used for question marks and dogs that reduce the firm's profitability. The proceeds of sale or liquidation are then invested more favorably.

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**QUESTION 3**

The chief financial officer of Pauley, Inc has requested an evaluation of a proposed acquisition of a new machine at a purchase price of \$60,000 and with installation costs of \$10,000. A \$3,000 increase in working capital will be required. The machine will have a useful life of four years, after which it can be sold for \$10,000. The estimated annual incremental operating revenues and cash operating expenses are \$150,000 and \$100,000, respectively, for each of the four years. Pauley's effective income tax rate is 40%, and the cost of capital is 12%. Pauley uses straight-line depreciation for both financial reporting and income tax purposes. Pauley's estimated after-tax cash flow in the fourth year, at which time the equipment will be sold, will be?

- A. \$34,000
- B. \$45,000
- C. \$46,000



D. \$49,000

Correct Answer:

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#### QUESTION 4

Behavioral scientists have identified human tendencies that can erode the quality of decision making. Which of the following best describes a behavioral decision error referred to as "framing error"?

- A. Evaluating positive information favorably and negative information unfavorably.
- B. Getting locked into losing courses of action because of personal commitment.
- C. Evaluating the probabilities of outcomes as point estimates instead of ranges.
- D. Becoming overconfident because of past successes.

Correct Answer: A

How information is presented influences both its interpretation and the resulting behavior. Framing error is the tendency to evaluate positively presented information favorably and negatively presented information unfavorably.

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#### QUESTION 5

The Dixon Corporation has an outstanding 1-year bank loan of \$300,000 at a stated interest rate of 8%. In addition, Dixon is required to maintain a 20% compensating balance in its checking account. Assuming the company would normally maintain a zero balance in its checking account, the effective interest rate on the loan is

- A. 6.4%
- B. 8.0%
- C. 20%
- D. 10.0%

Correct Answer:

The requirement to maintain a compensating balance of 20% of the \$300,000 loan means that the borrower has effective use of only 80% of the loan, or \$240,000. The 8% interest rate applied to a \$300,000 loan requires an annual interest expenditure of \$24,000. In turn, paying \$24,000 for the use of \$240,000 indicates an effective interest rate of 10%.

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